

CENTRAL INTELLIGENCE AGENCY

INFORMATION REPORT

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The following is a translation of a speech given by an official of the Economic Section of the Yugoslav Ministry for Foreign Affairs. The speech was given to the Party organization of a government enterprise. Although the information contained is in most part known, it is disseminated to show one of the lines taken by the government to explain economic conditions in Yugoslavia.

1. Introduction

- a. The mineral wealth of Yugoslavia is very extensive. Although a small country, Yugoslavia ranks in Europe right after the USSR in the quantity and variety of minerals. The richest republics are Serbia, Bosnia-Herzegovina, and Macedonia. The minerals are copper, iron, coal, zinc, manganese, chrome, antimony, etc., and, according to latest discoveries, also uranium.
- b. Yugoslav agriculture is producing Middle-European, Alpine, Mediterranean, and subtropical grains, industrial plants, fodder, fruits, and vegetables. All conditions needed for animal husbandry are present. Large forests and great amounts of water power are also available.
- c. In this talk I shall attempt to give a comprehensive picture of the various branches of the economy.

2. Industry and Agriculture

- a. The first Five Year Plan had to suffer certain limitations and corrections because of the emphasis which had to be given to capital investments, especially to heavy industry and electrification, in order to do away with the semi-colonial economic character and the industrial backwardness of pre-war Yugoslavia. Before the war Yugoslavia exported minerals and metals at low prices and imported expensive finished and semi-finished

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products. In spite of its wealth in raw materials, the country was unable to supply either its light industry, which was developed to a certain extent, to complete semi-finished products, or to supply agriculture with tools, machines, and other means needed for increase of production.

- b. In order to do away with such backwardness in industry, i.e., with the lag of heavy industry behind light industry, investments have been distributed in such a manner as to obtain as soon as possible the maximum capacity from existing metal, chemical, textile, and leather industries, and an increased exploitation of natural wealth.
- c. The slow development of agriculture especially during recent years has harmed the entire economy. This was especially felt one year ago when new industrial establishments for the processing of domestic raw materials began to function and when the number of city inhabitants increased considerably. For example, the percentage of city inhabitants in Croatia was 24.5 in 1939 and 34.7 in 1950.
- d. The disproportion between the progress made by industry and that made by agriculture can be seen in the fact that even in the eighth postwar year Yugoslavia did not reach its pre-war (1930-1939) average in agricultural production. The two years of drought were a factor of course.
- e. The results of all branches of industry, however, have been good both from the point of view of technological improvement and from the point of view of creation of new products.
- f. The estimated value of the improvements and the new products amounts to several hundred million dinars. By introducing new products and more up-to-date methods of production, Yugoslav industry has been able to develop from a backward industry into a modern one in a relatively short time.
- g. All this brings us to the discussion of new economic measures, prices, and the stabilization of the market during the current year.
- h. New economic measures create new production relationships and mean a qualitative step forward in economic progress. That is why direct producers and professional economic managers paid so much attention to the change of prices in raw materials and semi-finished products. It was learned and kept in consideration that the major portion of accumulation goes to the extractive industry and it has been estimated, therefore, that by decreasing the extractive industry we can strengthen processing industry.
- i. A characteristic disproportion between the organic composition of capital and the productivity of labor exists in Yugoslav industry. At the present time the productivity of labor is one of the most important problems to economists all over the world, to those in capitalist countries as well as to those in countries which have partially or completely accepted Socialism. This problem involves also a number of questions connected with Yugoslav economy, the most important of which are the following:
 - (1) What is the average amount of labor needed for a certain product or for all the products produced by a country?
 - (2) What is the proportion of the average amount of labor of our country with that of other countries as reflected by our foreign trade?

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- (3) What is the average amount of labor needed for the production of a given branch of industry?
 - (4) What is the rendering (sic) of various enterprises in regard to the amount of labor needed in production?
- j. Because of the facts learned and in order to increase the contribution of society, our ministries were forced to adopt certain temporary measures:
- (1) A new degree of accumulation has been created in addition to the basic one;
 - (2) Enterprises which cannot reach even a basic degree of accumulation are being considered for liquidation; and
 - (3) Enterprises with a small organic composition of capital and unprofitable businesses are being assisted with new investments if they can market their products and become profitable.
- k. Economic measures for the stabilization of markets and the prices of industrial and agricultural products already have shown good results. In January 1951 agricultural products were 35 times more expensive than in 1938 whereas industrial products were only 17 times more expensive. Continuing to base comparisons on 1938 prices, the agricultural products were:
- (1) 38 times more expensive in April 1951;
 - (2) 24 times in July 1951; and
 - (3) 13 times in November 1951.
- At the same time industrial products were:
- (4) 19 times more expensive in April 1951;
 - (5) 19 times in July 1951; and
 - (6) 17 times in November 1951.
- The equalization of the prices of industrial and agricultural products, therefore, was reached in mid-August 1951. While the prices of agricultural products decreased rapidly, the most important industrial products registered an increase in price. Good results toward the stabilization of agricultural and industrial prices were reached at the end of 1951 with the result that the prices of industrial products began to decrease gradually.
- l. Another aspect of the struggle for the stabilization of the market was the increase in prices of utilities, transportation, et sim. The purpose of this increase was the absorption of a large part of the spending money in order to diminish the pressure of customers on the merchandise market. Although knowing that such measures lower the standard of living to a certain extent, these were deemed necessary in order to cause a decrease of agricultural product prices.
- m. Let us examine the index of individual expenditures. The food expenses of a four-member worker's family showed a constant tendency toward decrease

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in 1951, beginning in March. If the index for January 1951 is established at 100, the situation was the following during the other months:

- (1) February101;
- (2) June 93;
- (3) August 57;
- (4) October. 53; and
- (5) December 46.

- n. The expenses for overhead, however, increased in the same year. With January equaling 100, they increased to:

- (1) 117 in October;
- (2) 153 in November; and
- (3) 149 in December.

Heat and light expenses increased especially during the winter: to 122 in November, and to 121 in December.

- o. The index of individual expenditures for a worker's family, therefore, moved in the following manner in 1951:

- (1) January.100;
- (2) February102;
- (3) March.100;
- (4) April.103;
- (5) May.105;
- (6) June 98;
- (7) July 84;
- (8) August 75;
- (9) September. . . . 72;
- (10) October. 71;
- (11) November 69; and
- (12) December 63.

The individual expenditures remained basically the same during the first months of the current year. The index of expenditures for a four-member white collar worker's family changed in approximately the same manner.

- p. The government decided to free the purchase and sale of certain raw materials which until then were being allocated. The abolition of

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limitations in purchasing, the abolition of obligatory deliveries, and the abolition of coupons for purchases at reduced prices will be enforced in 1953 and will mean a great step forward. These measures will bring about an equalization of raw material prices, a betterment in quality and a reduction of lower quality raw material prices.

- q. The system of allocation which was enforced until recently determined both the availability of merchandise and the variation in production. Therefore the production capacity of producers was limited and they were allowed to produce only those articles which could be produced with the raw materials they were allocated. According to the new system enterprises will produce articles on the basis of market demand and, at the same time, on the availability of corresponding raw materials.
- r. The creation of an exchange market for foreign bills, where enterprises would purchase and sell at rates based on demand and supply, has also been contemplated during the current year.
- s. The economic situation in the current year differs somewhat from previous years. In spite of the 150 billion dinar damage caused by this year's drought, the standard of living of the masses will not change. The fulfillment of the economic plan for 1952 will bring the completion of the main part of the construction program, the strengthening of the armed forces, and will keep the living standard of workers on the same level. The fulfillment of the main part of the construction program means that the building of key industry will be completed, and that will bring about a quick rise in the living standard.
- t. The strengthening of the armed forces means security for the existing social order and the independence of the country. The government has to spend so much money for military needs (210 billion dinars, which is 22 per cent of the national income) because of the existing international situation.
- u. In spite of the fact that the current economic plan does not contemplate an improvement in living standards, there has nevertheless been an improvement because of the measures adopted for the stabilization of the market, the search for internal reserves in the collectives, the decrease of production costs, and the saving of materiel, motive power, and the labor forces. Internal reserves are very large.
- v. It is known that the prices of industrial products, such as clothing, have decreased considerably during the current year, and especially during the last two months. Factories are also producing a larger quantity of goods for export to Turkey, Canada, and elsewhere. At the same time, grain, fats, sugar, and other articles are being imported from those countries. The prices in State stores are low and inviting, whereas peasants keep increasing the prices of articles on the free market, the supply of which may become low from time to time, such as milk, eggs, etc. If, for instance, State stores sell milk at 30 dinars per liter and eggs at 15 dinars, peasants will immediately charge 50 dinars for milk and 20 dinars for an egg. Such increases in prices on the free market are also due to Cominformist propaganda and rumors to the effect that the abolition of obligatory deliveries would cause a lack of certain products and that such products, therefore, should not be marketed because their prices would increase. Honest people very often believed those rumors.

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- w. An additional economic measure was the cutting of taxes and the establishment of the new tax percentage. This was done to realize a saving of 33 million dinars which would serve to cut down the deficit in payments. The problem of deficit will be solved when big industries begin to work. It has been estimated that when new key industries are completed, exports will increase about 100 million dollars (in relation to 1952) and imports will be cut about 40 million dollars. According to the same estimates, payments will be balanced in the beginning of 1955.

3. Internal and Foreign Trade in Yugoslavia

a. The Basic Characteristics of Yugoslav Internal Trade

- (1) The main political-economic task of Yugoslav internal trade is to supply the market with the agricultural products and goods needed for raising the living standard of city and village workers. Internal trade, therefore, is one of the strongest weapons at the disposition of the Party and the Government in their efforts to raise the general welfare of the working class.
- (2) Yugoslav internal trade is a non-accumulative branch of economy. The prices of goods are set by the plan in such a manner as to cover only the handling and production costs and do not include a trading profit.
- (3) The liquidation of the remnants of capitalism entered its last phase during the current year: 2.7 per cent of stores are still privately owned, while their participation in trade amounts to 0.6 per cent of the national effort.
- (4) During 1952 the system of trade and supply was broken down into three categories:

(a) Guaranteed Supplies

1. The supply of certain food articles was guaranteed to laborers, white collar workers, recipients of pensions, invalids, scientists, artists, those engaged in free professions, craftsmen, and all other persons so entitled by law.
2. The guaranteed supplies were of two kinds: federal and republican. The supplies guaranteed by the Federal Government were the following: bread or flour, porridge, meat and meat products, sugar and sugar products, coffee, textiles, clothing, and other manufactured articles. The supplies guaranteed by Republic Governments were the following: beans, potatoes, and other vegetables; milk and other dairy products, fuel, etc.
3. Besides being given to private individuals, supplies were also guaranteed to passive areas and to places severely damaged by the war. The purpose of guarantying supplies to those areas was to give them an economic uplift and enable them to regain their economic independence.

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(b) Fixed Prices

1. Agricultural producers (farmers and agricultural cooperatives) who sell their products (other than those subjected to obligatory delivery) to the state at fixed prices were allowed to purchase industrial products from the state at low fixed prices. The quantity of the purchase was limited by the value of the sale and the needs of the producers.
2. Obligatory deliveries of grain, cattle, and other agricultural products were regulated by special decrees issued by Federal and Republic authorities. These regulations imposed systematic restrictions upon "kulaks" by limiting their purchases of industrial articles from the state to only a portion of the value of their agricultural deliveries to the state.

(c) Free Market

1. Certain industrial products can be purchased freely at higher (so-called commercial) and unified prices; while a large number of Federal, Republic, or local production can be purchased freely at lower and unified prices (sic). In addition to the industrial product market, there is also a free market of agricultural products where prices are set by supply and demand.
- (5) The three types of trade mentioned above, except the agricultural free market, were almost entirely included in the socialist sector of trade. They were developed by State and cooperative trading units and by various stores belonging to state organizations.
- (6) The essential characteristic of Yugoslav trading is the gradual liquidation of private ownership and the fast growing and strengthening of state and cooperative trade groups.
- (7) The most important economic and organizational task was to enable internal socialized trade to struggle against the residue of capitalistic speculation in cities and villages.
- (8) All these factors, as well as the deficient organizations of the state and cooperative trading group, called for a quick liquidation of the backward phenomena in trade as well as the anti-national attempts of capitalist speculators, and required a more solid organizational base.

b. The Aims and Principles of Yugoslav Foreign Trade

- (1) The task of Yugoslav foreign trade is to supply the country with those products which are needed for capital investments, for the production of finished products, and for national consumption, and which either are not produced at all or are produced in insufficient quantities. Foreign trade also insures the fulfillment of the Five Year Plan, and, together with all other economic activity, represents the instrument for the building and strengthening of the regime.

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- (2) Foreign trade consists of dual activity: importing and exporting. All goods purchased abroad and imported have to be paid for, and, therefore, the export of a certain quantity of domestic products is needed. It is essential that only those products are imported which are needed for normal development and for furthering progress in economic activity. Yugoslav imports consist mainly of the following articles:

- (a) Raw materials and semi-finished products which are needed in the production of finished products;
- (b) Investment goods, i.e., factory and other equipment which increase the economic, technical, and productive capacity of the country; and
- (c) Those consumer goods which are not yet produced in the country.

The three types of imports are active contributors in the development of the country, in increasing productive capacity and in raising the living standard of the working masses.

- (3) Yugoslavia exports those articles which are produced in surplus quantities and also those which, sometimes, are needed but nevertheless must be exported to acquire indispensable items for the development of our economy and the fulfilment of the Five Year Plan.
- (4) Foreign trade in old Yugoslavia was based on the principle of adding to the personal profits of private individuals and on the narrow interests of domestic and foreign capitalists. Therefore, foreign trade, instead of strengthening Yugoslavia's independence and economy, left the country entirely dependent upon foreign capital.
- (5) The position of the new Yugoslavia toward foreign trade policy corresponds to the general political position:
- (a) Maintaining economic and political independence and sovereignty;
 - (b) Building Socialism in the country; and
 - (c) Achieving equality in trading.
- (6) Yugoslav foreign trade has achieved a great number of successes from the point of view of the above-mentioned principles. Another successful accomplishment of Yugoslav foreign trade is the reaching of the pre-war level in this field during recent years despite great difficulties which were caused unexpectedly and especially by Cominformist countries. At the present time, imports and exports are being directed more and more toward the West. This is clearly illustrated by the trade agreements concluded with Western countries such as The Netherlands, Belgium, Switzerland, Sweden, Finland, Norway, Denmark, France, Italy, Austria, United States, Great Britain, Turkey, Greece, and others.

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